

AR49

Annual Report 1968



**SCINTREX**  
LIMITED

SCIENTIFIC INSTRUMENTATION RESEARCH AND EXPLORATION

## SCINTREX LIMITED and Subsidiaries

### HIGHLIGHTS

Gross Revenue	\$2,358,695	\$1,015,090
Net Income before Taxes	422,650	154,163
Net Income	300,869	151,271
Common Shares Outstanding	410,789	236,572*
Earnings per Common Share After Preference Dividends	69¢	64¢
Working Capital	\$1,044,127	521,990

\*This is the equivalent number of Scintrex shares after a 1 for 4 consolidation of shares of Sharpe Instruments of Canada Limited.



**Directors**

Harold O. Seigel  
Alfred J. Shaul  
William L. Seigel  
Robbert A. Bosschart  
Roger H. Pemberton  
Arthur E. Green  
Victor H. A. Diederichs

**Officers**

Harold O. Seigel, Ph.D., P.Eng., President  
Robbert A. Bosschart, Ph.D., P.Eng., Executive Vice President  
Roger H. Pemberton, M.Sc., P.Eng., Vice President, Marketing  
Alfred J. Shaul, Q.C., Secretary-Treasurer  
Arthur E. Green, C.A., Comptroller

**Solicitors**

Manley, Grant and Armstrong  
Shaul and Draimin

**Bankers**

Bank of Nova Scotia  
Marine Midland Trust Company of Western New York

**Auditors**

Vise, Rumack, Hecker, Stal & Hayeems

**Transfer Agents  
and Registrar**

Guaranty Trust Company of Canada

**Head Office**

79 Martin Ross Avenue, Downsview, Ontario

# SCINTREX LIMITED and Subsidiaries

## REPORT TO THE SHAREHOLDERS

### GENERAL

The year ending January 31, 1968, was a period of considerable growth, both internal and external, for the company. During the year the geophysical contracting and consulting service firm of Seigel Associates Limited, including its subsidiaries Seigel Associates (International) Limited (Kingston, Jamaica), Mineral Surveys Inc. (Buffalo, N.Y.) and Seigel Asociados S.A. de C.V. (Mexico City, Mexico) was acquired. This acquisition has considerably strengthened all aspects of the company's financial position. In addition, some operational economies have been effected by integration of sales and administrative functions and by the resulting flexibility in movement of technical personnel between instrumental production and geophysical service activities.

To reflect the broadened scope of the company's activities the corporate parent name has been changed to Scintrex Limited. Seigel Associates Limited is now a wholly owned subsidiary of Scintrex Limited. Sharpe Instruments remains a non-corporate operating division of Scintrex Limited and the Sharpe name is being retained for certain product lines, particularly in the audio field. The Buffalo division has also had a change of name, to Scintrex Inc. from Sharpe Instruments Inc.

Although the figures have not been broken down by division in this report we wish to point out that all divisions operated satisfactorily and profitably during this period, including geophysical services, geophysical instrument sales, audio sales and mechanical sub-contracts. Particularly gratifying is the remarkable improvement in the U.S. sales of audio products in the second half of the year. This improvement is associated, in part, with the favourable comment by Consumer Reports in October and November of 1967, but the trend was in evidence some months earlier, in fact. Redesign of our headphones and the cumulative affect of the past two years' sales efforts are now showing results.

Major new geophysical instrumentation and services were introduced during this period, resulting in a marked broadening of the sales potential in these areas. Included in these developments are light-weight helicopter-borne electromagnetic units and magnetometers, as well as four

channel, highly discriminating, airborne gamma radiation detectors. As a result the company now offers fully integrated airborne geophysical services anywhere in the world. At the time of writing, such surveys are underway on behalf of clients on three continents.

Improvements to our sophisticated ground geophysical instruments have been effected during this period in the fields of magnetics, radiometrics and induced polarization, putting the company in the lead in technical capability in such instruments and related services. More and more these instruments are becoming the world-wide standards through their use by the United Nations, governmental organizations and mining companies. Development work on a number of new instruments has only recently been completed and such instruments are currently entering the production and sales stage.

Research and development is the seed bed of future products, sales and services. Vision, financial resources, creative personnel and hard work are all required before the fruits of the combined efforts may be harvested. As an indication of the company's confidence in research and development as an investment in its future, its consolidated expenditure in this area has almost doubled in the current fiscal year over the expenditure of the previous year. Federal government grants towards research to the extent of \$33,547 have been received during the year.

### FINANCIAL

During this period the company's consolidated net profit after taxes rose to \$300,869 from \$151,271 for the previous year on revenues from all sources of \$2,358,695 compared with \$1,015,090. The working capital more than doubled, to \$1,044,127, much of which is in the form of cash, short term deposits and marketable securities, despite particularly heavy investment in new equipment.

The conservative accounting practices of the previous year have been maintained. All research and development expenditures have been written off as direct operating expenses and not capitalized to be written off against future sales or services. These expenditures amounted to \$186,536 this year, constituting 8% of gross revenue, as compared with \$95,927





last year. Depreciation write-offs on equipment increased sixfold (to \$117,376) over the previous year, partly due to the much higher rate of write-off on the equipment owned by Seigel Associates Limited and subsidiary companies. In addition, the Scintrex stock of rental geophysical equipment has now been removed from "Inventory" and placed into "Properties and Equipment" where it is being written-off at a rate which is double that of previous years. The latter move has also resulted in an apparent reduction in the Scintrex inventory. The retained earnings show an increase from \$91,479 to \$340,141, in spite of the above expenditures and write-offs. The net worth of the company has increased from \$890,712 to \$1,916,025.

The figure of \$304,802 listed as "Purchase of Property and Equipment" includes the following major items: Purchase of the 1.7 acre lot adjacent to its present leasehold building—\$44,208; value of rental equipment transferred from "Inventories" to "Properties and Equipment"—\$75,616; and value of new equipment purchases (including additional rental equipment)—\$184,978.

## FUTURE PROSPECTS

Sales of geophysical instruments and audio products are on rapidly rising growth trends. From a projection of these trends and from the volume of orders on hand one may anticipate another record year in these areas.

In the geophysical service field, operations are at a very high level with the emphasis being on airborne activities. A new American subsidiary, Scintrex Airborne Geophysics Inc., with offices in Tulsa, Oklahoma, has now been launched and has already two firm contracts for airborne surveys, one of which is for a state Geological Survey. A twin-engined aircraft has been purchased and a sensitive airborne magnetometer and ancillary equipment has been installed in it. This is the first aircraft to be owned and operated by the company, representing a departure from previous policy.

Geophysical survey operations, either ground or airborne, are currently underway in many parts of Canada, in the U.S.A., Mexico, Ireland, Senegal, Australia and Indonesia. Due to the fact that most service programs are of, at most, several months in predictable duration and be-

cause an airborne program, in particular, may have a large revenue value, the gross sales and profits of the service divisions are rather difficult to project. The company now has excellent human, technical and financial resources to obtain major international airborne geophysical survey contracts, so that there is every reason for optimism in this area of sales.

More emphasis will be placed in the coming year on research and development of non-geophysical instrumentation, which would appeal to a broader market. The audio product line will be strengthened and its sales more aggressively pursued through research and development and by the addition of a high calibre audio marketing manager.

Aside from the internal growth possibilities referred to above, management is already investigating certain external growth possibilities through the acquisition of one or more small scientifically based companies with compatible or complementary products or services. Some discussions have already been held with the management of certain potentially suitable companies. As soon as an acquisition has been consummated the shareholders will be immediately advised. The potential cash purchase requirements for such acquisitions will have a bearing on the dividend policy for the ensuing year.

As has been mentioned above, the 1.7 acre lot adjacent to the present leasehold plant in Downsview, has been purchased during the year. A building of up to 30,000 square feet in floor space may be constructed on this lot, thus providing for future expansion space at a minimum of inconvenience and cost. For the moment, improved utilization of the existing plant has made available sufficient space for current requirements. There is little doubt that Scintrex Inc. (Buffalo) will need considerably increased space when its present lease expires in 1969. The space requirements of any future acquisitions will have a bearing on the selection of new quarters for Scintrex Limited and Scintrex Inc.

On behalf of the Board of Directors I am pleased to extend our appreciation to the members of the staff for their contribution to the continued success of the company.

On behalf of the Board of Directors,  
Harold O. Seigel, Ph.D., P.Eng.  
President.



# SCINTREX LIMITED and Subsidiaries

## CONSOLIDATED BALANCE SHEET

(with comparative figures at 1967)

### ASSETS

#### CURRENT

	1968	1967
Cash and short term deposits.....	\$ 102,032	\$ 14,555
Receivables .....	554,232	179,314
Marketable securities (market value — \$175,082).....	176,084	—
Inventories—at the lower of cost and net realizable value (Note 2).....	445,405	482,663
Prepaid expenses and sundry assets.....	12,210	7,077
	<u>1,289,963</u>	<u>683,609</u>

#### INVESTMENT IN AND ADVANCES TO ASSOCIATED COMPANY

(50% owned) — cost..... 15,045 —

SPECIAL REFUNDABLE INCOME TAX..... 5,755 936

PROPERTIES AND EQUIPMENT — cost..... 743,215 264,219

Less: Accumulated depreciation..... 275,970 100,548

467,245 163,671

#### OTHER

Unamortized patents, processes and franchises (Note 3)..... 157,077 204,115

Excess of cost of subsidiaries over book value on acquisition.... 337,201 —

494,278 204,115

\$2,272,286 \$1,052,331

On Behalf of the Board

Dr. Harold O. Seigel, Director

Alfred J. Shaul, Director

See accompanying notes

### AUDITORS' REPORT

#### To The Shareholders

We have examined the consolidated balance sheet of Scintrex Limited and its subsidiaries as at January 31, 1968, and the consolidated statements of operations and retained earnings and source and use of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

Toronto, Canada

April 23, 1968



## AS AT JANUARY 31, 1968

January 31, 1967 — Note 1)

### LIABILITIES

#### CURRENT

	1968	1967
Bank loan.....	\$ —	\$ 54,000
Accounts payable and accrued liabilities.....	186,314	104,727
Income taxes payable.....	59,522	2,892
	<u>245,836</u>	<u>161,619</u>

PROVISION FOR DEFERRED INCOME TAXES.....	106,384	—
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MINORITY INTEREST.....	4,041	—
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### SHAREHOLDERS' EQUITY

#### CAPITAL STOCK (Note 4)

##### Authorized

\$350,000 6% cumulative, convertible preference shares,  
par value \$1

1,500,000 Common shares, no par value

##### Issued

327,500 Preference shares.....	327,500	—
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410,789 Common shares (1967 — 236,572 shares).....	1,248,384	799,233
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	<u>1,575,884</u>	<u>799,233</u>
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RETAINED EARNINGS — per statement.....	340,141	91,479
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	<u>1,916,025</u>	<u>890,712</u>
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	<u>\$2,272,286</u>	<u>\$1,052,331</u>
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financial statements.

In our opinion these statements present fairly the consolidated financial position of the companies as at January 31, 1968, and the results of their operations for the year, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

WISE, RUMACK, HECKER, STAL AND HAYEEMS,  
Chartered Accountants



# SCINTREX LIMITED and Subsidiaries

## CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEAR ENDED JANUARY 31, 1968  
(with comparative figures for 1967 — Note 1)

	1968	1967*
REVENUE—sales and fees.....	\$2,347,627	\$1,015,090
—from investments .....	11,068	—
	<u>2,358,695</u>	<u>1,015,090</u>
Cost of sales, including selling and administrative expenses.....	1,663,810	757,048
Depreciation .....	117,376	18,984
Research and development expenses.....	186,536	95,927
Minority interest .....	1,870	—
	<u>1,969,592</u>	<u>871,959</u>
Less: Research and development grants received from the Government of Canada .....	33,547	11,032
	<u>1,936,045</u>	<u>860,927</u>
NET INCOME BEFORE TAXES.....	422,650	154,163
Income taxes (Note 5).....	121,781	2,892
	<u>121,781</u>	<u>2,892</u>
NET INCOME.....	<u>\$ 300,869</u>	<u>\$ 151,271</u>

\*1967 figures reclassified to include applicable overheads in "Research and development expenses".

See accompanying notes to financial statements.

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED JANUARY 31, 1968  
(with comparative figures for 1967 — Note 1)

	1968	1967
RETAINED EARNINGS — beginning of year.....	\$ 91,479	\$ 59,591
Net income for the year.....	300,869	151,271
Prior years' adjustments.....	15,776	29
	<u>408,124</u>	<u>210,891</u>
Patents, processes and franchises, written off (Note 2) .....	48,333	48,333
Deferred charges written off .....	—	71,079
Dividends on preference shares .....	19,650	—
	<u>67,983</u>	<u>119,412</u>
RETAINED EARNINGS — end of year.....	<u>\$340,141</u>	<u>\$ 91,479</u>

See accompanying notes to financial statements.





## CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

FOR THE YEAR ENDED JANUARY 31, 1968  
(with comparative figures for 1967 — Note 1)

	1968	1967
WORKING CAPITAL — beginning of year.....	\$ 521,990	\$ 418,003
SOURCE OF FUNDS		
Addition to working capital from operations.....	524,629	170,255
Working capital of subsidiaries at date of aquisition.....	297,358	—
Proceeds from issue of common shares.....	26,651	—
Miscellaneous and prior years' adjustments.....	17,815	29
	<u>866,453</u>	<u>170,284</u>
	<u>1,388,443</u>	<u>588,287</u>
USE OF FUNDS		
Purchase of property and equipment.....	304,802	65,361
Investment in and advances to associated company.....	15,045	—
Special refundable tax.....	4,819	936
Dividends on preference shares .....	19,650	—
	<u>344,316</u>	<u>66,297</u>
WORKING CAPITAL — end of year.....	<u>\$1,044,127</u>	<u>\$ 521,990</u>
INCREASE IN WORKING CAPITAL.....	<u>\$ 522,137</u>	<u>\$ 103,987</u>

See accompanying notes to financial statements.

# SCINTREX LIMITED and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JANUARY 31, 1968

### 1. Principles of Consolidation

The consolidated financial statements for the year include the accounts of Seigel Associates Limited and its subsidiaries, acquired on February 1, 1967. The comparative figures do not reflect the operations of these acquired subsidiaries.

The accounts of the foreign subsidiaries are converted into Canadian dollars at rates of exchange current at January 31, 1968, except that properties and equipment are at rates prevailing on dates of acquisition.

2. Geophysical field equipment amounting to \$75,616 manufactured by the company and available for sale was included in inventories as at January 31, 1967. As this equipment is being rented out by the company, it is shown in properties and equipment as at January 31, 1968.
3. Management is of the opinion that certain patents and processes acquired by the company since inception are becoming outdated due to technological advances. These costs amounting to \$145,000 are being written off to retained earnings over a three year period. To date \$96,666 has been written off, leaving a balance of \$48,334 which will be written off in the coming year.
4. On May 25, 1967, the company was granted Supplementary Letters Patent changing its name from Sharpe Instruments of Canada Limited to Scintrex Limited. The outstanding common shares were consolidated on the basis of four "Sharpe" for one "Scintrex" and the authorized capital was increased to 350,000 preference shares and 1,500,000 common shares.

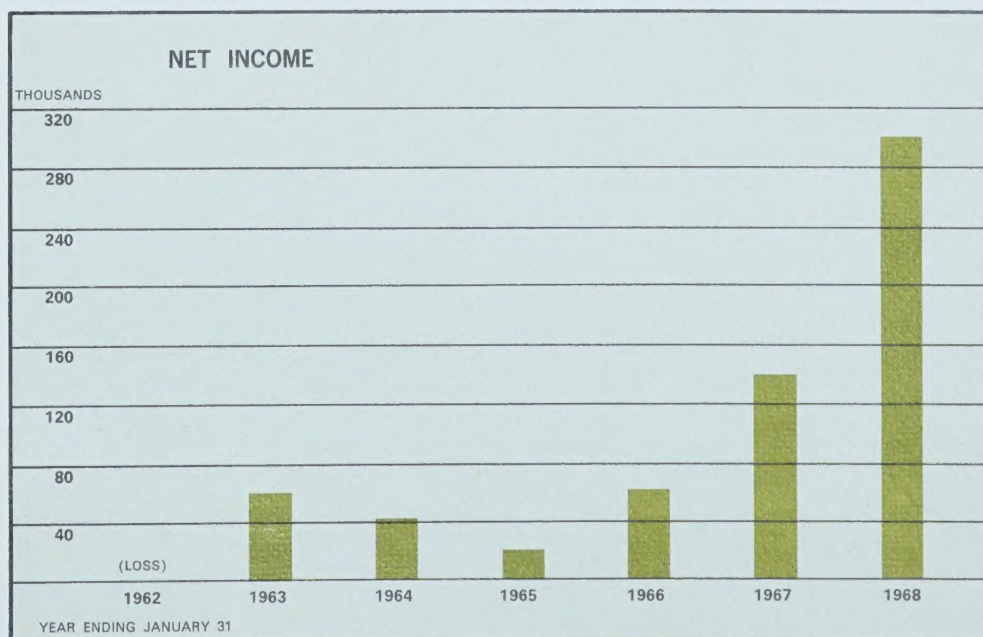
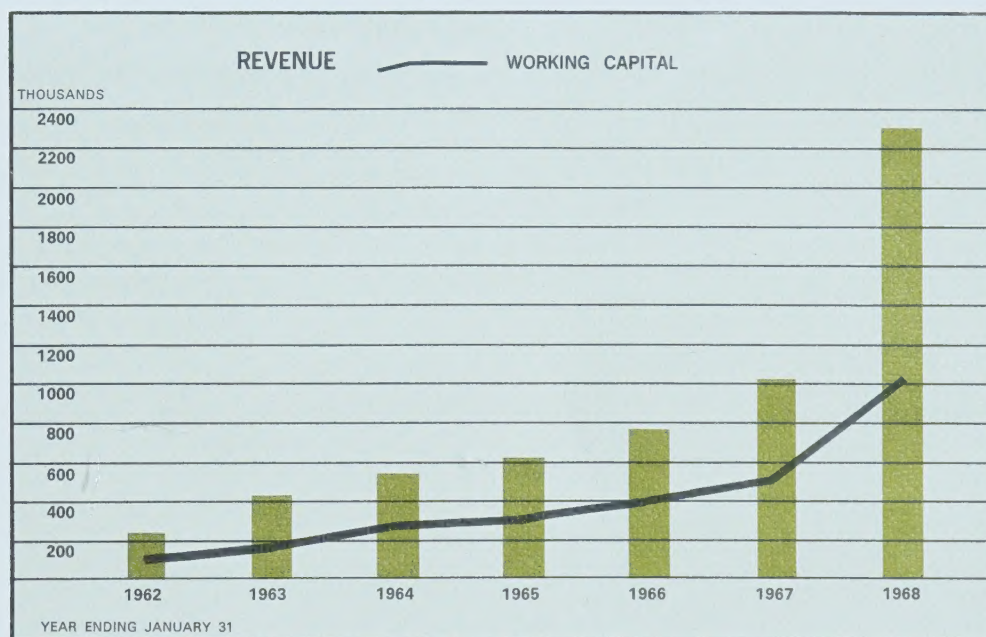
During the year, 11,717 common shares were issued under an employees' and officers' stock option plan at prices of \$2.00 and \$3.00 per share. As at January 31, 1968, options on 24,583 common shares were outstanding exercisable at prices of \$2.00 and \$3.00 per share.

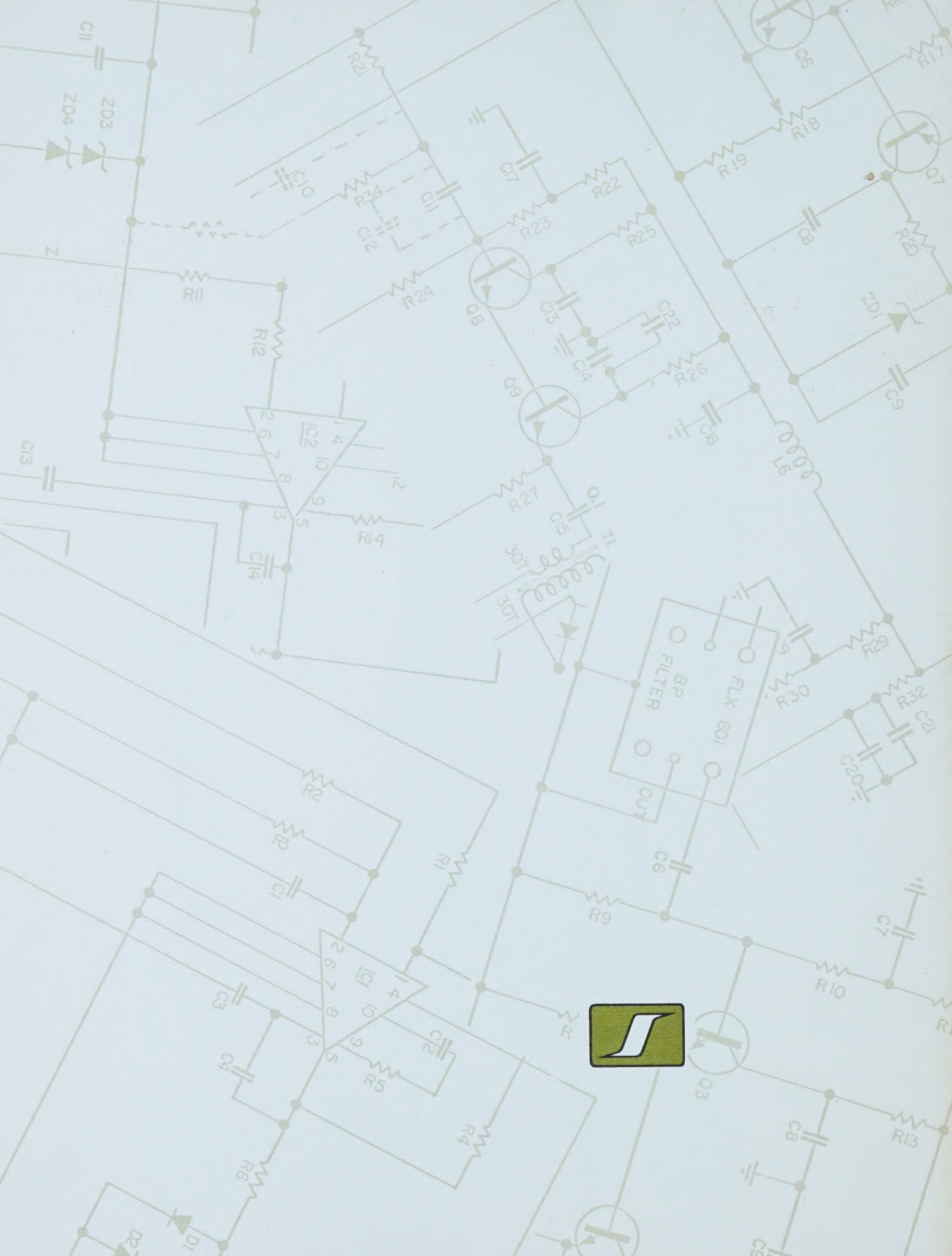
5. Provision for income tax has been calculated after using up prior years' tax losses.
6. As at January 31, 1968, total rental commitments amounted to \$287,950 in respect of leased premises.
7. Total remuneration received by the directors of the company (including the salaries of officers who are also directors) amounted to \$100,586 for the year.





## 7 YEAR CHART OF FINANCIAL PERFORMANCE







## SCINTREX SUBSIDIARIES AND BRANCH OFFICES

Scintrex Limited &  
Seigel Associates Limited,  
Toronto, Ontario

- Harold O. Seigel, Ph.D., P. Eng.,  
President.
- Robbert A. Bosschart, Ph.D., P.Eng.  
Executive Vice President
- Roger H. Pemberton, M.Sc., P. Eng.,  
Vice President, Marketing

Scintrex Inc.,  
Buffalo, New York.

- Kenneth L. Malick, General Manager
- A. H. S. Pickburn, M.Inst.M.,  
Marketing Manager

Seigel Associates Limited,  
Vancouver, British Columbia.

- Jon G. Baird, B.Sc., P.Eng.  
Operations Manager
- Richard O. Crosby, B.Sc., P. Eng.,  
Western Marketing Manager

Scintrex Airborne Geophysics Inc.,  
Tulsa, Oklahoma. U.S.A.

- Altus E. Ibach, General Manager

Mineral Surveys Inc.,  
Buffalo, New York,  
Salt Lake City, Utah

- S. Parker Gay, Jr., M.Sc.,  
General Manager
- Roger W. Gedde, M.Sc.,  
Operations Manager

Seigel Asociados, S.A. de C.V.,  
Mexico City, Mexico

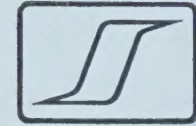
- Edward J. Surman, General Manager

Seigel Associates (International)  
Limited  
Kingston, Jamaica.

- David B. Williams, B.Sc.,  
General Manager

Seigel Associates Australasia,  
Kalgoorlie, Western Australia.

- Anthony W. Howland-Rose, M.Sc.,  
General Manager



# SCINTREX Limited

*Scientific Instrumentation Research and Exploration*

79 MARTIN ROSS AVENUE, DOWNSVIEW, ONTARIO



## INTERIM REPORT TO SHAREHOLDERS

## FOR THE

## SIX MONTHS ENDED JULY 31, 1968



#### To the Shareholders:

I am pleased to submit to you the consolidated statements of operations and source and application of funds for the six months ended July 31, 1968, with comparative operating figures for 1967 and 1966. The 1967 statement of operations has been adjusted in order to allow a proper comparison with 1968.

Revenue has increased by 22.8%, net income before income taxes by 18.2% and net earnings per Common Share by 27.4%. Working capital increased by \$195,142.

Your company remains active in its four fundamental fields of endeavour as follows:

#### (1) Geophysical Services

During the current period exploration personnel of your company and its subsidiaries executed geophysical surveys, either ground or airborne, in Senegal (on behalf of the United Nations and the Government of Senegal), Spain, Portugal, Ireland, Canada, U.S.A., Mexico, Australia and Indonesia.

A new service subsidiary, Seigel Associates Australasia, has been established in Australia and has been heavily engaged in the current mineral exploration boom in that sub-continent.

A broad agreement has been signed with KLM Aerocarto N.V., a subsidiary of KLM Royal Dutch Airlines, for co-operation on a world-wide basis in large aerial geophysical surveys.

#### (2) Manufacturing of Geophysical Instruments

The world-wide demand for our mineral exploration equipment continues to increase substantially as the range of our products and the degree of our market penetration increases. Three new instruments were introduced into our sales during this period and a similar number is in the prototype testing stage.

#### (3) Manufacturing of Audio Products

The remarkable growth of our sales in this field has necessitated the search for larger manufacturing quarters. A 5 acre site has been optioned and tenders are now being invited on the construction of a suitable building.

More attention is being directed towards the development of new products in the audio field. Several items of potential interest are currently in an advanced design stage. Redesign and improvement of our current products proceeds on a continuing basis.

#### (4) Machine Shop Contracting

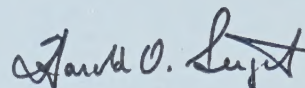
This carries on as a small percentage of total sales but a profitable activity. The aircraft industry in Canada is in an expanding phase at present, so that a continuing good level of work is to be expected.

Your company's Common Shares were listed on the Toronto Stock Exchange and trading commenced on July 29, 1968.

It is the intention of your company to continue to expand its areas of activity through new product development and acquisitions in allied fields.

Orders on hand remain at a high level and management is anticipating a favourable second half.

Toronto, Ontario.  
September 18, 1968



Harold O. Seigel, Ph.D., P.Eng.  
President.

### SCINTREX LIMITED AND ITS SUBSIDIARIES

#### CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS FOR SIX MONTHS ENDED JULY 31, 1968

Working Capital — February 1, 1968 .....	\$1,044,127
Source of Funds	
Net Income .....	225,787
Depreciation .....	59,829
Increase in minority interest .....	3,554
Proceeds from issue of common shares .....	18,699
	<u>\$ 307,869</u>
	<u>\$1,351,996</u>
Use of Funds	
Purchase of Equipment .....	\$ 100,692
Advances to Associated Company .....	2,160
Dividends on Preference Shares .....	9,875
	<u>\$ 112,727</u>
Working Capital — July 31, 1968 .....	<u>\$1,239,269</u>
Increase in Working Capital .....	<u>\$ 195,142</u>

### SCINTREX LIMITED AND ITS SUBSIDIARIES

#### CONSOLIDATED STATEMENT OF OPERATIONS FOR SIX MONTHS ENDED JULY 31, 1968

WITH COMPARATIVE FIGURES FOR 1967 AND 1966  
(SUBJECT TO AUDIT)

	1968	1967 (2)	1966 (1)
Revenue .....	\$1,569,477	\$1,277,610	\$533,843
Net Income before Income Taxes	324,115	273,989	55,803
Income Taxes .....	98,328	97,813	2,099
Net Income before dividend on preference shares .....	\$ 225,787	\$ 176,176	\$ 53,704
Dividend on preference shares .....	9,875	9,875	—
Net Income applicable to Common Shareholders .....	<u>\$ 215,913</u>	<u>\$ 166,301</u>	<u>\$ 53,704</u>
Number of Common Shares Outstanding .....	418,272	410,594	236,572
Earnings per Common Share .....	51.6¢	40.5¢	22.7¢

Note (1) Does not include the operations of Seigel Associates Limited and subsidiaries acquired February 1, 1967.

Note (2) Adjustments to the 1967 figures have been made as follows:

- Elimination of inter Company Sales in the amount of \$90,000.
- Provision for employees bonuses under an employees profit sharing plan amounting to \$14,400.
- Revision of income tax calculations to apportion a tax loss in the parent company over the entire fiscal year, instead of the first six months.
- Provision for dividends on preference shares.